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November 27, 2002

Ms. Marlene Dortch
Secretary
Federal Communications Commission
445 12th Street, SW, Room TWB-204
Washington, DC 20554

Re: Ex parte, in the matter of : The Verizon Petition for Emergency Declaratory and other relief (WC Docket No. 02-202) and certain issues regarding revisions to Tariff Rates, Terms and Conditions in WC Docket Nos. 02-304, 02-317 and 02-319.

Dear Ms. Dortch,

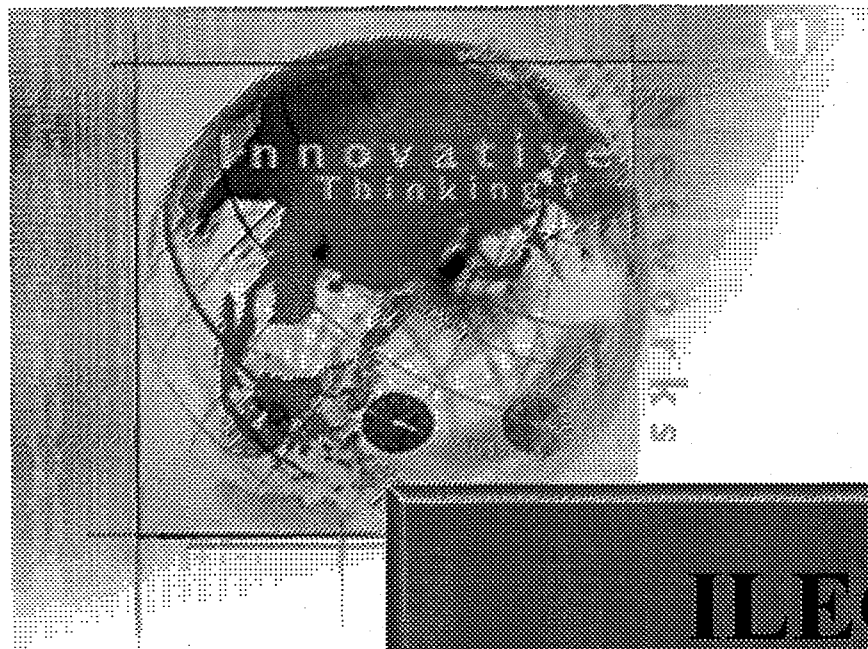
Yesterday, Bob Quinn and I from AT&T, David Lawson from Sidley and Austin (representing AT&T) and by phone Peter Jacoby from AT&T, met with Tamara Preiss, Doug Slotten, Kathy O'Neill and Julie Saulnier of Wireline Competition Bureau.

We discussed AT&T's view of issues raised in the above referenced proceedings. Specifically, AT&T presented the views identified in the attachment which was provided at the meeting.

Sincerely,

A handwritten signature in dark ink, appearing to read "M Del Casino".

Attachment



ILEC Security Deposit Declaratory Ruling Petition

AT&T Presentation

November 26, 2002



Summary

No Need For Additional Protection

- ILEC Uncollectibles ~ 1% Of Revenue
- Special Access Rates of Return: 22-55%
- Price Caps Account For Endogenous Risks
- Existing Tariffs Offer Adequate Protection

ILEC-Selected Criteria Are Anti-Competitive

- Triggers Not Correlated With Payment Risk
- ILECs Have Discretion, No Competitive Check On Deposit Decisions
- Will Discriminate In Favor Of BOC LD Affiliate



Uncollectibles Remain Tiny

- No ILEC's Uncollectibles $> 1.5\%$ of Revenue

Pacific - Only 0.23%; Verizon-West - 0.77%; Ameritech - 0.11%

- Historically, Uncollectible Ratios Ebb and Flow With Business Cycle, Other Short-Term Events
- Bankruptcy Claims Overstated
 - ILECs May Collect Claims; Claims Include Other Services, Post-Petition Amounts
- Vast Majority Of Recent Increases Relate To Pending Claims In WorldCom, Global C. Bankruptcies; Not Likely To Recur



ILEC Provision Of Access Services Is Not Risky

- No Basis To ILEC Claims That Revisions Justified Because Access Business Is “Risky”
- ILECs Dominant, No Competition
- Access Rates Of Return Are Exorbitant
- ILEC Special Access Reform Needed, But Tariff Revisions That Will Facilitate Additional Overearnings and Discrimination Are Not Necessary



Price Caps Account For Bad Debt Risk

- In 1990, Price Caps Included Uncollectibles
 - *E.g.*, Ameritech: \$9.2M in 1990; Only \$3.6 M in 2001
- No Long-Term Trend In Increasing Uncollectible Ratios
- Fluctuations Are Endogenous, Price Caps Designed To Incent ILECs To Act Efficiently
 - *E.g.*, ILECs Could Implement More Accurate and Timely Access Billing; Amounts Disputed By Customers Often More Than What ILECs Do Not Collect



Security Deposit Triggers Are Broad & Anti-Competitive

- ILEC-Selected Triggers: Most Access Customers Qualify For Security Deposit
- *All* BOC Long Distance Affiliates Exempt
 - Violate Section 272 By Relying On Parent's Creditworthiness
- Deposits/Advance Payments - ILECs Can Raise Rivals' Costs
- Unlike Competitive Companies, No Market Consequences For Unreasonable ILEC Credit Decisions



Chosen Triggers Provide ILECs With Broad Discretion

- BellSouth: Scoring Tools Can Be Manipulated, Results Can Be Overridden
- Verizon, SBC: Bond Ratings Include Investment Grade, Apply To Most Carriers
- 2 Months Out Of Twelve Late: Does Not Allow For Billing Disputes Or Minor Payment Discrepancies

